

**PROCEEDING BEFORE THE HONORABLE JANE L. CLINE
INSURANCE COMMISSIONER
STATE OF WEST VIRGINIA**

**IN RE:
FARMERS & MECHANICS MUTUAL INSURANCE CO. of W.VA.
NAIC #36315**

**ADMINISTRATIVE PROCEEDING #
10-MAP-02001**

**AGREED ORDER ADOPTING REPORT OF
MARKET CONDUCT EXAMINATION AND DIRECTING
CORRECTIVE ACTION**

NOW COMES The Honorable Jane L. Cline, Insurance Commissioner of the State of West Virginia, and issues this Agreed Order which adopts the Report of Market Conduct Examination and directs corrective action as a result of findings in the Report of Market Conduct Examination for the examination of **FARMERS & MECHANICS MUTUAL INSURANCE CO. of W.VA.** (hereinafter "**F&MMICWV**") for the examination period ending June 30, 2008 based upon the following findings, to wit:

PARTIES

1. The Honorable Jane L. Cline is the Insurance Commissioner of the State of West Virginia (hereinafter the "Insurance Commissioner") and is charged with the duty of administering and enforcing, among other duties, the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.

2. **F&MMICWV** is licensed under West Virginia Code Chapter 33, Article 22 as a farmers mutual fire company in the State of West Virginia

authorized by the Insurance Commissioner to transact its business holding a Certificate of Authority #D011.

3. This statutory market conduct examination was conducted and instituted as result and per the authority of West Virginia Code § 33-2-9.

FINDINGS OF FACT

1. A Market Conduct Examination concerning the operational affairs of **F&MMICWV** for the period ending as of June 30, 2008 was conducted in accordance with West Virginia Code § 33-2-9(c) by examiners duly appointed by the Insurance Commissioner.

2. On August 19, 2010, the examiner filed with the Insurance Commissioner, pursuant to West Virginia Code § 33-2-9(j)(2), a Report of Market Conduct Examination.

3. On August 23, 2010, a true copy of the Report of Market Conduct Examination was sent to **F&MMICWV** by certified and electronic mail and was received by **F&MMICWV** on August 25, 2010.

4. On August 25, 2010, **F&MMICWV** was notified pursuant to West Virginia Code § 33-2-9(j) (2) that it had thirty (30) days after receipt of the Report of Market Conduct Examination to file a submission or objection with the Insurance Commissioner.

5. The Report of Market Conduct Examination included findings including, but not limited to, the following:

(1.) Recommendation A- Operations and Management – Standard 4

It is recommended that the Company conduct a mock disaster

exercise. The Company should develop a formalized disaster recovery plan detailing procedures for continuing operations in the event of any type of disaster.

(ii.) Recommendation B – Complaint Handling – Standard 2

The Company should issue a guideline to all company divisions informing them of the definition of a "complaint" and requiring each division to report any written communication received directly by them that meet the above definition for inclusion on the company's direct complaint log.

6. On August 31, 2010 (received by Commissioner on September 7, 2010), **F&MMICWV** responded to the Report of Market Conduct Examination ("**F&MMICWV's** Response") and essentially did not dispute certain facts pertaining to findings, comments, results, observations, or recommendations contained in the Report of Market Conduct Examination.

7. **F&MMICWV** herein accepts the Report of Market Conduct Examination and corrective action concerning the same.

8. **F&MMICWV** hereby waives additional time for examination report review, notice of administrative hearing, any and all rights to an administrative hearing, and to judicial appellate review of any matters contained herein this Agreed Order.

9. Any Finding of Fact that is more properly a Conclusion of Law is

hereby adopted as such and incorporated in the next section.

CONCLUSIONS OF LAW

1. The Insurance Commissioner has jurisdiction over the subject matter of and the parties to this proceeding.

2. This proceeding is pursuant to and in accordance with West Virginia Code § 33-2-9.

3. That F&MMICWV has incurred no violations of West Virginia Code as a result of the Report of Examination.

4. The Commissioner is charged with the responsibility of verifying continued compliance with West Virginia Code and the West Virginia Code of State Rules by **F&MMICWV** as well as all other provisions of regulation that **F&MMICWV** is subjected to by virtue of their Certificate of Authority to operate in the State of West Virginia.

5. Any Conclusion of Law that is more properly a Finding of Fact is hereby incorporated as such.

ORDER

Pursuant to West Virginia Code § 33-2-9(j)(3)(A), following the review of the Report of Market Conduct Examination, the examination work papers, and **F&MMICWV's** Response thereto, the Insurance Commissioner and **F&MMICWV** have agreed to enter into this Agreed Order adopting the Report of Market Conduct Examination. The Parties have further agreed to the imposition of corrective action to the extent they have not already complied against **F&MMICWV** as set forth below.

It is accordingly **ORDERED** as follows:

(A) The Report of Market Conduct Examination of **F&MMICWV** for the period ending June 30, 2008, is hereby **ADOPTED** and **APPROVED** by the Insurance Commissioner.

(B) It is further **ORDERED** that **F&MMICWV** shall continue to monitor its compliance with the West Virginia Code, West Virginia Code of State Rules, and all Federal laws it is subject thereto.

(C) It is further **ORDERED** that within thirty (30) days of the next regularly scheduled meeting of its Board of Directors, **F&MMICWV** shall file with the West Virginia Insurance Commissioner, in accordance with West Virginia Code § 33-2-9(j)(4), affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report of Market Conduct Examination and a copy of this ORDER ADOPTING REPORT OF MARKET CONDUCT EXAMINATION AND DIRECTING CORRECTIVE ACTION.


(D) It is further **ORDERED** that **F&MMICWV** shall ensure compliance with the West Virginia Code and the Code of State Rules. **F&MMICWV** shall specifically cure those deficiencies identified in the Report of Market Conduct that warranted a recommendation to the extent they have not already complied therewith.

(E) The Insurance Commissioner has determined that an administrative penalty is not warranted as a result of the Report of Examination.

(F) It is finally **ORDERED** that all such review periods, statutory notices, administrative hearings and appellate rights are herein waived concerning this Report of Market Conduct Examination and Agreed Order. All such rights are preserved by the Parties regarding any future action taken, if any,

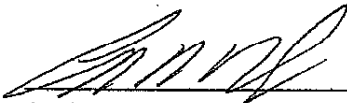
on such Order by the Commissioner against F&MMICWV.

Entered this 13 day of October, 2010.


The Honorable Jane L. Cline
Insurance Commissioner

REVIEWED AND AGREED TO BY:

On Behalf of the INSURANCE COMMISSIONER:


Andrew R. Pauley, Associate Counsel
Attorney Supervisor, APIR

Dated: 10/13/10

On Behalf of F&MMICWV:

By: E. Dennis McCormick
[Print Name]

Its: President / CEO

Signature: E. Dennis McCormick

Date: October 7, 2010



STATE OF WEST VIRGINIA

Offices of the Insurance Commissioner

JOE MANCHIN III
Governor

JANE L. CLINE
Insurance Commissioner

August 19, 2010

CERTIFIED MAIL

7009 3410 0000 4505 0286

Edwin Dennis McCormick, President
Farmers & Mechanics Mutual Insurance Co. of W. Va.
25 Administrative Drive
Martinsburg, WV 25401

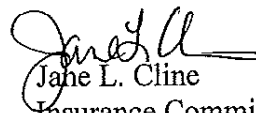
RE: Report of Market Conduct Examination as of June 30, 2008

Dear Mr. McCormick:

Enclosed is a copy of the Report of Market Conduct Examination of Farmers & Mechanics Mutual Insurance Company of West Virginia. This examination was performed in accordance with the provisions of Chapter 33, Article 2, and Section 9 of the West Virginia Code of 1931 as amended. The Report reflects the business and operational affairs of Farmers & Mechanics Mutual Insurance Company of West Virginia for the period ending June 30, 2008.

Pursuant to West Virginia Code §33-2-9(j)(2), you are hereby notified that you have thirty (30) days from receipt of this report to make written submission or rebuttals with respect to any matter contained in the Report of Market Conduct Examination. If an exception is taken it must be filed within the statutory time period. Please direct any questions you may have to Mark A. Hooker at 558-6279, ext. 1176.

Sincerely,


Jane L. Cline

Insurance Commissioner

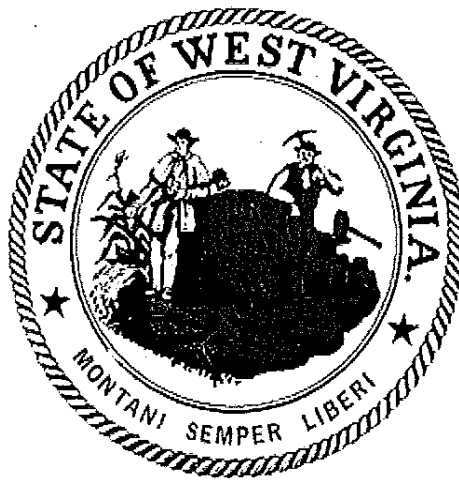
Enc: Copy of Report of Market Conduct Examination as of June 30, 2008

cc: Mary Jane Pickens, General Counsel
Andrew R. Pauley, Associate Counsel, Supervisor-Regulatory Compliance
Mark A. Hooker, Chief Market Conduct Examiner



Report of Market Conduct Examination

As of June 30, 2008



**FARMERS & MECHANICS
MUTUAL INSURANCE CO
OF
WEST VIRGINIA**

25 Administrative Drive
Martinsburg, WV 25401

**NAIC COMPANY CODE 36315
Examination Number WV014-M16**

TABLE OF CONTENTS

PREVIOUS EXAMINATION FINDINGS	1
EXECUTIVE SUMMARY	4
SCOPE OF EXAMINATION	5
HISTORY AND PROFILE	6
METHODOLOGY	6
A. COMPANY OPERATIONS/MANAGEMENT	7
B. COMPLAINT HANDLING	13
C. MARKETING AND SALES	16
D. PRODUCER LICENSING	17
E. POLICYHOLDER SERVICE	20
F. UNDERWRITING AND RATING	24
G. CLAIMS	33
H. PRESUMPTIONS OF ABANDONMENT	43
I. TAX EXEMPTION – UNDERSERVED AREAS	43
EXAMINER’S SIGNATURE AND ACKNOWLEDGMENT	46
EXAMINER’S AFFIDAVIT	47

August 18, 2010

The Honorable Jane L. Cline
West Virginia Insurance Commissioner
1124 Smith Street
Charleston, West Virginia 25301

Dear Commissioner Cline:

Pursuant to your instructions and in accordance with W.Va. Code §33-2-9, an examination has been made as of June 30, 2008 of the business affairs of

**FARMERS & MECHANICS
MUTUAL INSURANCE CO
OF
WEST VIRGINIA
25 Administrative Drive
Martinsburg, WV 25401**

Hereinafter referred to as the "Company." The following report of the findings of this examination is herewith respectfully submitted.

PREVIOUS EXAMINATION FINDINGS

Recommendation A-1 – Operations/Management

It is recommended that the Company formalize its internal audit functions with regard to claims, policyholder services, and underwriting. The internal audit program should include methodology for selecting the amounts and types of files to review, a procedure for reporting results to management, and corrective action plans. It is further recommended that claims for directors and employees, with which there is a question of coverage, be adjudicated by an outside adjusting firm with recommendations made to the entire board of directors.

This examination determined the Company adequately addressed this recommendation. The Company conducts internal audits and findings are reviewed by the Board of Directors. All claims involving directors, employees, families of employees and any claims that would possibly involve any conflict of interest or appearance of impropriety are handled by an outside adjusting firm. They have not had any claims of this nature for a number of years.

Recommendation A-3 – Operations/Management

It is recommended that the Company develop a written procedural manual or guide for antifraud activity.

This examination determined the Company adequately addressed this recommendation. The Company developed a Special Investigations Unit and written procedural manual. Fraud cases are reported to the WVOIC as required.

Recommendation A-4 – Operations/Management

It is recommended that Company conduct a mock disaster exercise.

This examination determined the Company did not fully comply with this recommendation.

Recommendation A-7 – Operations/Management

It is recommended that the Company properly maintain all underwriting files.

This examination determined the Company adequately addressed this recommendation. The Company maintains all underwriting files and complies with the statutes and rules relating to file retention.

Recommendation A-8 – Operations/Management

It is recommended that the Company write those lines of business authorized by W. Va. Code §33-22-8.

This examination determined the Company adequately addressed this recommendation.

Recommendation B-1 – Complaint Handling

It is recommended that the Company record all complaints in the required format in the Company complaint register.

This examination determined the Company adequately addressed this recommendation.

Recommendation B-4 – Complaint Handling

It is recommended that the Company respond to consumer complaints with Offices of the Insurance Commissioner in a timely manner.

This examination determined the Company adequately addressed this recommendation.

Recommendation D-2 – Producer Licensing

It is recommended that the Company only accept business from producers who are appointed as outlined in W.Va. Code §33-12-18. It is further recommended that the Company establish an internal control mechanism to prevent insurance from being solicited from producers who are not properly appointed.

This examination determined the Company adequately addressed this recommendation. The Company accepts business only from appropriately licensed and duly appointed producers.

Recommendation D-3 – Producer Licensing

It is recommended that the Company promptly send producer termination notifications to both the Commissioner and each affected producer in accordance with W.Va. Code §33-12-25.

This examination determined the Company adequately addressed this recommendation. The Company sends producer termination notifications to the Commissioner and each affected producer as required.

Recommendation F-2 – Underwriting and Rating

It is recommended that the Company identify producers and agencies that require additional training on policy rating as well as underwriting criteria for policy endorsements and provide such training accordingly. It is further recommended that the Company take appropriate and contemporaneous corrective action as it identifies patterns of inappropriate rating by any producer or agency.

This examination determined the Company adequately addressed this recommendation. The Company provides adequate training to producers to insure proper rating and processing of applications and endorsements.

Recommendation F-5 – Underwriting and Rating

It is recommended that the Company appropriately document reasons for credits and deviations.

This examination determined the Company adequately addressed this recommendation. The Company properly rates and calculates premiums in accordance with published rates.

Recommendation F-14 – Underwriting and Rating

It is recommended that the Company obtain a signed application on all new business submissions. It is further recommended that the Company institute a re-underwriting program for all commercial risks.

This examination determined the Company adequately addressed this recommendation. The Company maintains complete underwriting files with signed applications on all risks.

Recommendation F-23 – Underwriting and Rating

It is recommended that the Company outline the reasons for termination on cancellation and declinations notices.

This examination determined the Company adequately addressed this recommendation. The Company provides specific reasons to producers and consumers for cancellation and declination of policies.

Recommendation F-25 – Underwriting and Rating

It is recommended that the Company require producers and insureds to provide appropriate documentation when policies are retroactively cancelled.

This examination determined the Company adequately addressed this recommendation. During the course of this review there were no policies found that were retroactively cancelled.

Recommendation G-3 - Claims

It is recommended that the Company notify claimants of delays in claims resolution in a timely manner.

This examination determined the Company adequately addressed this recommendation. The Company provides required notice to claimants when there is a delay in the resolution of their claim.

Recommendation G-6 - Claims

It is recommended that the Company handle claims in accordance with policy provisions and applicable statutes and rules.

This examination determined the Company adequately addressed this recommendation. Files reviewed indicate that the Company handles claims in accordance with their claims manuals, and procedures, policy provisions, applicable statutes and rules.

EXECUTIVE SUMMARY

A prior examination of the affairs of Farmers & Mechanics Mutual Insurance Company of West Virginia as of December 31, 2002 was conducted by the State of West Virginia. An Agreed Order was signed on August 6, 2004. The examination fieldwork on the current exam began February 1, 2009 and concluded on May 18, 2009. Seventy-three (73) standards were tested during the examination. The Company passed seventy-two (72) of the standards tested and one (1) standard was not reviewed. Two (2) additional areas warranted a recommendation or comment. The areas of concern are:

- The Company should develop a formalized disaster recovery plan detailing procedures for continuing operations in the event of any type of disaster. The plan should be valid, specific and operational, with procedures for implementation and should be revised periodically and current at all times. The Company should test the plan to assure that it is adequate to address developments in the event of a disaster effecting their continued operations and security of non-public personal information.
- The Company should maintain a complete complaint log. The complaint log maintained by the company provides a record of only those complaints received directly from the West Virginia Offices of Insurance Commissioner's Consumer Service Division. The company should acknowledge as a "complaint" any written communications received directly from consumers expressing a grievance and include them in their complaint records as required by W. Va. Code §33-11-4(10).

The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business according to the West Virginia insurance laws and regulations.

SCOPE OF EXAMINATION

The basic business areas that were examined under this examination were:

- A. Company Operations/Management
- B. Complaint Handling
- C. Marketing and Sales
- D. Producer Licensing
- E. Policyholder Service
- F. Underwriting and Rating
- G. Claims
- H. Presumptions of Abandonment
- I. Tax Exemption – Underserved Areas

Each business area has standards that the examination measured. Some standards have specific statutory guidance, others have specific company guidelines, and yet others have contractual guidelines.

The focus of the examination was on the methods used by the Company to manage its operations for each of the business areas subject to this examination. This includes an analysis of how the Company communicates its instructions and intentions to its lower echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then made on those areas in which the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance. Most areas are tested to see if the Company is in compliance with West Virginia statute and rules.

This examination report is a report by test, rather than a report by exception, and all standards tested are described and the results indicated.

HISTORY AND PROFILE

THE HISTORY OF FARMERS & MECHANICS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA

The Company was founded on December 18th, 1877 as "Farmers & Mechanics Mutual Fire Insurance Company of West Virginia" and is the oldest Domestic Mutual Fire Insurance Company in the state.

The Company is represented by over 400 licensed producers with over 100 independent agencies throughout the state of West Virginia. The Company provides Homeowner, Mobile Homeowner, Dwelling Fire, Farm Fire, Farmowners, Businessowners, Commercial Fire and Commercial Package Coverages.

As of December 31, 2007, Farmers & Mechanics had a total surplus of \$21.7 million, \$35.9 million assets, with combined ratio of 66.7% and a direct written premium of \$19,877,428.

As of December 31, 2008 Farmers & Mechanics had a total surplus of \$22.9 million \$36.6 million assets and a direct written premium of \$19,508,621.

The Company is governed by an eleven member Board of Directors

METHODOLOGY

This examination is based on the standards and tests for a market conduct examination of a property and casualty insurer found in Chapters 16 & 17 of the NAIC Market Regulation Handbook 2008 and on applicable West Virginia statutes and rules.

Some of the standards were measured using a single type of review, while others used a combination or all types of review. The types of review used in this examination fall into three general categories: Generic, Sample, and Electronic.

A "Generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "Sample" review indicates that a standard was tested through direct review of a random sample of files selected using automated sampling software. The sampling techniques used are based on ninety-five percent (95%) confidence level with *Poisson* distribution---meaning sample sizes are generally the same without regard to population. For evaluation

purposes, an error tolerance level of seven percent (7%) was used for claims and a ten percent (10%) tolerance was used for other types of review.

An "Electronic" review indicates that a standard was tested through use of a computer program or routine applied to a download of computer records provided by the examinee. This type of review typically reviews 100% of the records of a particular type.

Standards were measured using tests designed to adequately measure how the Company met certain benchmarks. The various tests utilized are set forth in the NAIC Market Regulation Handbook 2008 for a property and casualty insurer. Each standard applied is described and the result of testing is provided under the appropriate standard. The standard, its statutory authority under West Virginia law, and its source in the NAIC Market Regulation Handbook 2008 are stated and contained within a bold border.

Each standard is accompanied by a "Comment" describing the purpose or reason for the standard. "Results" are indicated, examiner's "Observations" are noted, and in some cases, a "Recommendation" is made. Comments, Results, Observations and Recommendations are kept with the appropriate standard.

A. COMPANY OPERATIONS/MANAGEMENT

The Operations/Management portion of the examination is designed to provide a view of what the regulated entity is and how it operates. It is not based on sampling techniques; it is more concerned with structure. This review is not intended to duplicate a financial examination review, but is important in providing the market conduct examiner with an understanding of the examinee. Many troubled companies have become so because management has not been structured to recognize and address the problems that can arise. Well-run companies generally have processes that are similar in structure. While these processes vary in detail and effectiveness from company-to-company, the absence of them or the ineffective application of them is often reflected in failure of the various standards tested throughout the examination. The processes usually include:

- A planning function where direction, policy, objectives and goals are formulated;
- An execution or implementation of the planning function elements;
- A measurement function that considers the results of the planning and execution; and
- A reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

Standard A 1: Operations & Management <i>NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 1</i> The company has an up-to-date, valid internal or external audit program. <i>W.Va. Code §§ 33-33-3 & 33-33-4</i>

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement as it pertains to annual audited statements. A company that has no audit function lacks the ready means to detect structural problems until problems have occurred. A valid internal or external audit function and its use is a key indicator of competency of management which the Commissioner may consider in the review of an insurer.

Results: Pass

Observations: The Company's financial statements are audited by the firm of Buffamante Whipple Buttafaro, P.C. in accordance with W.Va. Code §33-3-14. The last audit was conducted for the year ending December 31, 2008. Loss reserves are certified by the firm of Kufera, Inc. Reinsurance is currently provided through Guy Carpenter & Company. The Board of Directors reviews the auditor's report and approves it at their Director's meetings. The Company has an investment committee that reviews investments prior to each Board meeting.

The previous exam recommended that the Company formalize its internal audit functions with regard to claims, policyholder services and underwriting. The Company advises that they do quarterly audits with the audit committee of the Board. They audit any claims by employees and or Board members as well as twelve (12) each of the claims for the quarter for HO, BOP, and Fire. Twelve (12) new business policies are reviewed as well. The claims and policies are randomly selected.

The Company currently has a rule in place requiring any claim of a Board member or employee or family member of such be handled by an independent adjuster. In order to avoid any appearance of impropriety they also use independent adjusters for any politically sensitive claims as well as any business or organization that an employee or board member might be connected with.

The Company advises that they have not had any claims involving directors or employees for several years.

Recommendations: None

Standard A 3: Operations & Management NAIC Market Regulation Handbook 2008 - Chapter 16, § A, Standard 3
The company has antifraud initiatives in place that are reasonably calculated to detect, prosecute and prevent fraudulent insurance acts.
W.Va. Code §§33-41-1, et seq.

Comments: The review methodology for this standard is generic. The standard does not have a direct statutory requirement. Written procedural manuals or guides and antifraud plans should provide sufficient detail to enable employees to perform their functions in accordance with the goals and direction of management. Appropriate antifraud activity is important for asset protection as well as policyholder protection and is an indicator of the

competency of management, which the Commissioner may consider in the review of an insurer. Further, the insurer has an affirmative responsibility to report fraudulent activities of which it becomes aware.

Results: Pass

Observations: The Company has an anti-fraud plan that acknowledges that it is the policy of Farmers and Mechanics Mutual Insurance Company to prevent, detect, and investigate both internal and external fraud. The policy applies to all lines of business that the Company writes. The Company Special Investigation Unit (SIU) was organized on March 29, 2004 and is composed of an Investigator, who is actively involved in the investigation of cases arising from multiple lines of business.

Recommendations: None

<p>Standard A 4: Operations & Management – NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 4 The company has a valid disaster recovery plan.</p>

Comments: The review methodology for this standard is generic. The standard does not have a direct statutory requirement. It is essential that the Company have a formalized disaster recovery plan that will detail procedures for continuing operations in the event of any type of disaster. Appropriate disaster recovery planning is an indicator of the competency of management, which the Commissioner may consider in the review of an insurer.

Results: Pass with Recommendations

Observations: The Company has a disaster recovery plan, although some aspects are informal. This involves a verbal agreement with Centra Bank in Martinsburg. The Company is currently working with attorneys for both the Company, and Centra Bank to work out a written agreement whereby the Company can set up a static system and have it available at all times. As of the date of this examination the Company has an extra AS/400 that will be housed at Centra Bank for its use. It includes a tape drive for backup and updating the Company's personal computers. The Company is confident it could be back online within two (2) days. The Company is also in the process of securing an agreement with its software vendor where the Company will have its software housed electronically at one of their sites on a server that the Company can access remotely.

Recommendations: It is recommended that the Company conduct a mock disaster exercise. This was a concern and recommendation noted in the previous examination. The Company should develop a formalized disaster recovery plan detailing procedures for continuing operations in the event of any type of disaster.

Standard A 7: Operations & Management *NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 7*
Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.

W. Va. Code § 33-2-9; W.Va. Code St. R. §§ 114-14-1, et seq. & W.Va. Code St. R. §§ 114-15-1, et seq.

Comments: The review methodology for this standard is generic. The standard does not have a direct statutory requirement. This standard is intended to assure that an adequate and accessible record exists of the Company's transactions. The focus is on the records and actions considered in a market conduct examination such as, but not limited to, trade practices, claim practices, policy selection and issuance, rating, and complaint handling, etc. Inadequate, disorderly, inconsistent and inaccessible records can lead to inappropriate rates and other issues, which can provide harm to the public.

Results: Pass

Observations: The examiners found the Company claim and underwriting files were orderly and allowed for the reconstruction of pertinent events from the documents, correspondence, and note pad entries that were maintained. In some instances it was time consuming to separate documentation to individual claimants where several claimants were involved and consideration should be given to assigning a suffix to the claim number to identify individual claimants. The examiners did not believe that these instances rose to a level of a violation. A comment was made in the previous examination regarding instances where documentation in the claim files could be improved.

Recommendations: None

Standard A 8: Operations & Management *NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 8*
The company is licensed for the lines of business that are being written.

W. Va. Code §§ 33-22-1, et seq.

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard is intended to assure that the Company operations are in conformance with the Company's certificate of authority. W.Va. Code §33-22-8 specifies the following property perils and coverages which Farmers Mutual Fire Insurance Companies may insure against:

Results: Pass

Observations: Farmers and Mechanics issues a variety of Fire, Homeowners, Mobile-Homeowners, Business Owners, Farm owners, Commercial Multiple Peril and General Liability forms.

Form GL076 Ed. 2.0 was filed and approved for use by the WVOIC on March 1, 2005.

Recommendations: None

Standard A 9: Operations & Management NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 9
The Company cooperates on a timely basis with examiners performing the examinations.
W. Va. Code § 33-22-9 & W. Va. Code St. R. §§ 114-15-1, et seq.

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard is aimed at assuring that the Company is cooperating with the State in the completion of an open and on-going review of the company's operations in West Virginia. Cooperation with examiners in the conduct of an examination is not only required by statute, it is essential in completing the examination in a timely fashion and minimizing cost.

Results: Pass with recommendations

Observations: The Company was cooperative in all respects and responded promptly to all requests for information. The examination proceeded in a cordial atmosphere.

Recommendations: The data submitted in some instances was not complete and not in the format requested. These instances were not to a level to justify citing a violation, however, it is recommend that there is more attention to detail is preparing the submission of data for future examinations.

Standard A 10: Operations & Management NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 10
The company has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions so as to minimize any improper intrusion into the privacy of applicants and policyholders.
W. Va. Code St. R. §§ 114-57-1, et seq.

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: Pass

Observations: The Company asserts that all information gathered during the application process is maintained in the image right system which is security controlled by job description. Once the scanning is complete the information is Transition filed for thirty (30) days and locked in a storage area accessible by the Support Services Supervisor and the Vice President of Underwriting. On the thirty-first (31st) day the documentation is shredded using a vendor service that shreds on site. The examiners find these procedures and safe-guards to be adequate.

Recommendations: None

Standard A 11: Operations & Management NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 11
The company has developed and implemented written policies, standards and procedures for the management of insurance information. W. Va. Code St. R. § 114-57-1, et seq.

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: Pass

Observations: The Company systems developed to store and maintain the confidentiality of consumer's personal information has security for each employee position which is set by the IT department and reviewed by the Department Vice President. During employee training employees are instructed as to what information may be released verbally and what must be requested in writing. These instructions are given prior to the employee assuming their position. The examiners found that the Company's methods for handling, disclosing, storing and disposing of insurance information are adequate to maintain the confidentiality of consumer's personal information.

Recommendations: None

Standard A 12: Operations & Management NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 12
The company has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers. W. Va. Code St. R. §§ 114-57-1, et seq.

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: Pass

Observations: Farmers and Mechanics have a well defined policy for the collection and use of information compiled in connection with insurance transactions. All employees must use a logon ID and password to access any information from the Company's automation facilities. Additionally, the Company requires properly executed releases of information prior to releasing any policyholder information.

Recommendations: None

Standard A 13: Operations & Management NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 13
The company provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information. W. Va. Code St. R. §§ 114-57-1, et seq.

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: Pass

Observations: The Company does receive credit reports during the underwriting process and the applicants may not become customers or consumers of the insurance policies offered. The credit reports are not utilized for underwriting the risk and are reviewed to determine if there may be reason for concern in collecting premiums when due leading to repeated requests to reinstate policies cancelled for non-payment. All information received during the application process is maintained in the Company system that is security controlled by job description and if not relative to policies issued to customers and consumers is shredded using a vendor that shreds on site. Notices provided to customers and consumers relative to financial information secured were found to be clear and conspicuous and accurately reflected the Company's privacy policies and practices.

Recommendations: None

<p>Standard A 15: Operations & Management <i>NAIC Market Regulation Handbook 2008 – Chapter 16, § A, Standard 15</i> The company's collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations. <i>W. Va. Code St. R. §§ 114-57-1, et seq.</i></p>

Comments: The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

Results: Pass

Observations: During the course of the examination there was no indication that the Company disclosed nonpublic personal financial information gathered during the underwriting process to nonaffiliated third parties or to anyone in violation of applicable statutes, rules and regulations.

Recommendations: None

B. COMPLAINT HANDLING

Comments: Evaluation of the standards in this business area is based on Company responses to various information requests and complaint files at the Company. In this business area, "complaints" includes "grievances." W. Va. Code § 33-11-4(10) requires

the Company to "...maintain a complete record of all the complaints which it has received." The statute also requires that "this record shall indicate the total number of complaints, their classification by line of business, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." West Virginia statutes define a complaint as "...any written communication primarily expressing a grievance."

Standard B 1: Complaint Handling	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § B,</i>
<i>Standard 1.</i>	
All complaints are recorded in the required format on the regulated entity's complaint register.	
	<i>W. Va. Code § 33-11-4(10)</i>

Comments: The review methodology for this standard is generic and electronic. The standard has a direct statutory requirement. This standard is concerned with whether the Company keeps formal track of complaints or grievances as required by statute. An insurer is required to maintain a complete record of all complaints received. The record must indicate the total number of complaints since the last examination, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint.

Results: Pass

Observations: The Company maintains a complaint log for those received through the WVOIC. However, the Company does not include written complaints received directly by the Company. This does not comply with the requirements of W. Va. Code § 33-11-4(10) see standard B-2.

Recommendations: See Recommendation B 2

Standard B 2: Complaint Handling	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § B, Standard 2.</i>
The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders.	
	<i>W. Va. Code § 33-11-4(10) & W. Va. Code St. R. §114-14-5.2</i>

Comments: The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard is concerned with whether the Company has sufficient procedures to require satisfactory handling of complaints received, as well as analysis in areas developing complaints. The Company is required to have a method for distribution of, obtaining and recording responses to complaints. An insurer is required to maintain a complete record of all complaints received in the format prescribed by the statute.

Results: Pass

Observations: When a WVOIC complaint is received, it is recorded on the complaint log and referred to the appropriate division supervisor for response. The company reported that

it had no complaints that were received directly from consumers, furthermore it did not appear that the company had a procedure to handle those complaints.

Recommendations: It is recommended that the Company maintain a complete complaint log. The complaint log maintained by the company provides a record of only those complaints received directly from the West Virginia Offices of Insurance Commissioner's Consumer Service Division. The company should acknowledge as a "complaint" any written communications received directly from consumers expressing a grievance and include them in their complaint records as required by W. Va. Code §33-11-4(10).

Standard B 3: Complaint Handling	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § B, Standard 3.</i>
The company takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language.	
<i>W. Va. Code § 33-11-4(10) & W. Va. Code St. R. § 114-14-5.2</i>	

Comments: The review methodology for this standard is sample. The standard has a direct statutory requirement. This standard is concerned with whether the Company has made a timely response to complaints/grievances. In the case of complaints concerning claims, direct time requirements are found in W. Va. Code St. R. § 114-14-5.3. West Virginia's Consumer Service section uses fifteen (15) working days as the standard timeframe for responses to complaints.

Results: Pass

Observations: The Company responds timely to complaints received directly from the West Virginia Consumer Service section. The company reported that it had no complaints that it received directly from consumers; furthermore, it did not appear that the company had a procedure to handle those complaints.

Recommendations: See recommendation B 2

Standard B 4: Complaint Handling	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § B, Standard 4.</i>
The time frame within which the company responds to complaints is in accordance with applicable statutes, rules and regulations.	
<i>W. Va. Code § 33-11-4(10) & W. Va. Code St. R. § 114-14-5.3</i>	

Comments: The review methodology for this standard is sample. The standard has a direct statutory requirement. This standard is concerned with whether the Company has made a timely response to complaints/grievances. In the case of complaints (grievances) concerning claims, direct time requirements are found in W. Va. Code St. R. § 114-14-5.3. West Virginia's Consumer Service section uses fifteen (15) working days as the standard timeframe for responses to complaints.

Results: Pass

Observations: The Company responds as required to complaints received directly from the Consumer Services section.

Recommendations: None

C. MARKETING AND SALES

Comments: The evaluation of standards in this business area is based on a review of Company responses to information, requests, questions, interviews, and presentations made to the examiners. This portion of the examination is designed to evaluate the representations made by the Company about its products. It is not typically based on sampling. The areas to be considered in this kind of review include all correspondence and communications with the agency force including sales materials and written and verbal advertising.

Standard C 1: Marketing & Sales

NAIC Market Regulation Handbook 2008 – Chapter 16, § C, Standard 1

All advertising and sales materials are in compliance with applicable statutes, rules and regulations.

W. Va. Code § 33-11-4(1), (2) & W. Va. Code St. R. § §114-14-1, et seq.

Comments: Review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with all forms of media (print, radio, television, etc.).

Results: Pass

Observations: The Advertising by this Company is very limited in nature. The Company has produced a limited number of brochures for distribution to current and prospective clients describing products marketed. Newspaper ads are limited in nature, normally the Company's logo, location and contact information. Producer created advertising is not permitted. The only internet advertising is on the Company's web page and no errors were noted upon review.

Recommendations: None

Standard C 2: Marketing & Sales

NAIC Market Regulation Handbook 2008 – Chapter 16, § C, Standard 2

Company internal producer training materials are in compliance with applicable statutes, rules and regulations.

W. Va. Code § 33-11-4(1) & (2) & W. Va. Code St. R. § §114-14-1, et seq.

Comments: Review methodology for this standard is generic. This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with training or instructional representation made by the Company to its producers.

Results: Pass

Observations: The Company has no formal training materials or manual for producers. Producers are trained in the use of underwriting guidelines and procedures for policy rating. Company underwriting guidelines were reviewed to ensure they conformed to State law and were not unfairly discriminatory. Producers are allowed to use only company prepared and approved guidelines and materials. Materials reviewed were found to be in compliance with statutes and rules. No exceptions were noted.

Recommendations: None

Standard C 3: Marketing & Sales	NAIC Market Regulation Handbook 2008 - Chapter 16, § C, Standard 3.
Company communications to producers are in compliance with applicable statutes, rules and regulations.	
W. Va. Code § 33-11-4(1) & (2) & W. Va. Code St. R. § 114-14-1, et seq.	

Comments: Review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentations, misleading statements or instructions to producers that are in conflict with statutes or rules. It is concerned with misrepresentations made by the Company to its producers.

Results: Pass

Observations: Manuals and materials provided to producers for review and use were updated to include references to new rates, rules and regulations. Review of letters, note pad entries, email and information provided on the website produced no issues or concerns. Emails noted in underwriting and claim files to individual Producers/Agencies were found to be in accordance with applicable statutes, rules and regulations.

Recommendations: None

D. PRODUCER LICENSING

Comments: The producer licensing portion of the examination is designed to test the Company's compliance with West Virginia producer licensing laws and rules. The evaluation of standards is based on a review of the Insurance Commissioner's records and

Company responses to information, requests, questions, interviews, and presentations made to the examiners.

Standard D 1: Producer Licensing	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § D, Standard 1</i>
Company records of licensed and appointed (if applicable) producers agree with department of insurance record	
<i>W. Va. Code §§ 33-12-3, 33-12-18 & W. Va. Code St. R. §§ 114-2-1, et seq.</i>	

Comments: Review methodology for this standard is electronic and sample. This standard has a direct statutory requirement. This standard is aimed at assuring compliance with the requirement that producers be properly licensed and appointed. Such producers are presumed to be qualified, having met the test for such license. W.Va. Code §33-12-3 states, “(a) A person may not sell, solicit or negotiate insurance covering subjects of insurance resident, located or to be performed in this state for any class or classes of insurance unless the person is licensed for that line of authority in accordance with this article. (b) No person shall in West Virginia act as or hold himself or herself out to be an individual insurance producer or insurance agency or solicitor unless then licensed therefore pursuant to this article. (c) No individual insurance producer, insurance agency or solicitor or any representative or employee thereof shall solicit or take application for, negotiate, procure or place for others any kind of insurance or receive or share, directly or indirectly, any commission or other valuable consideration arising from the sale, solicitation or negotiation of any insurance contract for which that person is not then licensed. (d) No insurer shall accept any business from or pay any commission to any individual insurance producer who does not then hold an appointment as an individual insurance producer for such insurer pursuant to this article.”

Results: Pass

Observations: The Company’s list of current appointed producers was reconciled with the records of the West Virginia Insurance Commissioner and no exceptions were noted.

Producer Licensing Sample Results

Type	Sampled	N/A	Pass	Fail	%Pass
2006-2008 New Business Policies	60	0	60	0	100

Recommendations: None

Standard D 2: Producer Licensing	<i>NAIC Market Regulation Handbook – Chapter 16, § D, Standard 2.</i>
The producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken.	
<i>W. Va. Code §§ 33-12-1 et seq.</i>	

Comments: Review methodology for this standard is sample and electronic. This standard has a direct statutory requirement. As applied in this section, it is not file specific.

This standard is aimed at assuring compliance with the requirement that producers be properly licensed and appointed for business solicited in West Virginia. The Company must appoint the producer within fifteen (15) days of the date the producer submits his/her first application to the Company.

Results: Pass

Observations: Farmers and Mechanics use independent producers to solicit insurance products in West Virginia. The procedures followed by the Company are in compliance with WVOIC requirements. The Company completes the WVOIC form and submits to the WVOIC for producer appointment. The LOA granted by the WVOIC in the producer's license agrees with the products the Company markets. Sixty (60) new business policies were reviewed and all producers were licensed and appointed as required.

Producer Licensing Sample Results

Type	Sampled	N/A	Pass	Fail	%Pass
2006-2008 New Business Policies	60	0	60	0	100

Recommendations: None

Standard D 3: Producer Licensing	<i>NAIC Market Regulation Handbook 2008 - Chapter 16, § D, Standard 3.</i>
Termination of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable.	
<i>W.Va. Code § 33-12-25 & W. Va. Code St. R. §§114-2-1, et seq.</i>	

Comments: Review methodology for this standard is electronic. This standard has a direct statutory requirement. It is generally file specific. This standard is aimed at both avoiding unlicensed placements of insurance as well as ensuring that producers are treated fairly with respect to terminations. W.Va. Code §33-12-25 requires the Company to notify the Commissioner (on a form prescribed by the Commissioner) within thirty (30) days of terminating the producer's authority. The same code section further requires the producer to be notified simultaneously.

Results: Pass

Observations: Termination notices to individually appointed producers and agencies were reviewed and found in compliance. When an individually appointed producer or an agency is terminated the policyholder is notified of non-renewal of their policy based on the producer no longer being an appointed representative of the Company. During the time frame of the examination the Company had five hundred fifty-two (552) appointed producers. Two-hundred thirty-one (231) producers were terminated in that period. Some of the producers were terminated due to agency affiliation or sale of an agency. They were then appointed with the agency who acquired the business or with other agencies with who they were affiliated. The Company records were reconciled with the WVOIC records and no discrepancies were noted.

Recommendations: None

Standard D 4: Producer Licensing	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § D, Standard 4.</i>
The company's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.	
	<i>W. Va. Code § 33-11-4(7)</i>

Comments: Review methodology for this standard is electronic and sample. This standard does not have a direct statutory requirement. It is generally not file specific. This standard is concerned with potential geographical discrimination through the insurer's selection and instructions to its producers. The tests are intended to expose indicators of such practice but may not be conclusive.

Results: Pass

Observations: Farmers and Mechanics' producers can be found throughout the State of West Virginia. Eighty-seven point nine percent (87.9%) of the Company's policies were issued in underserved areas of the insurance market in West Virginia which indicates compliance with the provisions of W. Va. Code § 33-22-8(e). No unfair discrimination against policyholders can be inferred by the Company's producer appointment and termination records. The entire list of two hundred thirty-one (231) producers terminated by the Company was reconciled with the records provided by the Company.

Recommendations: None

Standard D 5: Producer Licensing	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § D, Standard 5.</i>
Records of terminated producers adequately document reasons for terminations.	
	<i>W. Va. Code § 33-12-25 & W. Va. Code St. R. §§114-2-1, et seq W. Va. Code St. R. §§114-15-1 et seq</i>

Comments: Review methodology for this standard is generic. The standard has a direct statutory requirement. It is generally file specific. The standard is aimed to determine if files document the reasons for producer terminations and if the WVOIC is notified of termination for cause.

Results: Pass

Observations: Files were accurately documented and the review found no "for cause" terminations.

Recommendations: None

E. POLICYHOLDER SERVICE

Comments: The evaluation of standards in this business area is based on a review of Company responses to information requests, questions, interviews, representations made to

the examiner, and file sampling during the examination process. The policyholder service portion of the examination is designed to test a Company's compliance with statutes regarding billing notices, delays, premium refunds, and coverage questions.

Standard E 1: Policyholder Service	<i>NAIC Market Regulation Handbook 2008 - Chapter 16, § E, Standard 1</i>
Premium notices and billing notices are sent out with an adequate amount of advance notice.	
<i>W. Va. Code §33-11-4(7) & W. Va. Code §33-11-4(8(a))</i>	

Comments: Review methodology for this standard is sample. This standard is intended to ensure that the company procedures for handling renewals, billing, and processing endorsements are timely and in accordance with state guidelines.

Results: Pass

Observations: Review of files in ImageRight Desktop confirmed that renewals were handled in accordance with guidelines. Reviewed files in ImageRight Desktop which contained copies of billing notices. The notices were acceptable. Reviewed mailroom procedures with senior mailroom employee and found them to be in compliance. Sixty (60) policies were randomly selected for review from the listing of all policies in affect during the time frame of the examination:

New Business					
Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard E 2: Policyholder Service	<i>NAIC Market Regulation Handbook 2008 - Chapter 16, § E, Standard 2</i>
Policy issuance and insured requested cancellations is timely.	
<i>W. Va. Code§ 33-11-4 et seq.</i>	

Comments: Review methodology for this standard is sample. This standard is intended to determine if policy issuance and insured-requested cancellations are handled in a timely manner without excessive paperwork requirements for the insured. Providing insured with information in a timely fashion enables them to make informed decisions. Cancellation notices must provide the detailed information mandated by state statutes.

Results: Pass

Observations: A random sample of sixty (60) new business HO and HMO files were selected for review. Policies and endorsements were issued timely.

New Business					
Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

A random sample of sixty (60) policies cancelled at the insureds request was selected for review. Twenty (20) of the sixty (60) policies were cancelled at the request of the insured due to sale of the property. Forty (40) of the sixty (60) policies were cancelled at the request of the insured for other reasons. Cancellations were processed timely without additional paperwork being requested of the insured.

Policies Cancelled at Insured's Request

Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard E 3: Policyholder Service	NAIC Market Regulation Handbook 2008 - Chapter 16, § E, Standard 3
All correspondence directed to the regulated entity is answered in a timely and responsive manner by the appropriate department.	
W. Va. Code §§33-11-4 et seq.	

Comments: Review methodology for this standard is sample. This standard is intended to ensure that a response to correspondence is made timely and by the appropriate department. The company should provide applicants with the specific reason(s) for adverse underwriting decisions.

Results: Pass

Observations: Review of files in ImageRight Desktop confirmed that the appropriate department responded to correspondence. The Company normally responded within twenty-four (24) hours by phone or correspondence and within forty-eight (48) hours of receipt of question. Responses addressed the specific reason(s) for adverse underwriting decisions. Sixty (60) policies were randomly selected for review from the listing of all policies in affect during the time frame of the examination:

New Business

Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard E 5: Policyholder Service	NAIC Market Regulation Handbook 2008 - Chapter 16, § E, Standard 5
Policy transactions are processed accurately and completely.	
W. Va. Code §§33-11-4 et seq.	

Comments: Review methodology for this standard is generic. This standard is intended to confirm that documentation is maintained to verify bank draft acceptance and clearance and that policyholder requests are processed as soon as reasonably possible.

Results: Pass

Observations: Company "Point" system contains the file data of checks issued and payments received, and confirm compliance. Review of files confirmed that the Company responded to policyholders requests. Policy transactions are processed accurately and completely. Refunds were tested in cancellations and non renewals where it was noted that the Company complied with their pro rata refunding method. Sixty (60) policies were randomly selected for review from the listing of all policies in affect during the time frame of the examination:

New Business

Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard E 6: Policyholder Service NAIC Market Regulation Handbook 2008 - Chapter 16, § E, Standard 6
Reasonable attempts to locate missing policyholders or beneficiaries are made.
W. Va. Code §§33-11-4 et seq.

Comments: Review methodology for this standard is generic. This standard intends to verify that reasonable attempts are made to locate policyholders and claimants and any persons who were due funds when checks were returned.

Results: Pass

Observations: Review of files in ImageRight Desktop confirmed that the Company upon receipt of returned mail, checks or claims notice or when a possible claimant was not identified the Company made reasonable attempts to locate the involved party. Sixty (60) policies were randomly selected for review from the listing of all policies in affect during the time frame of the examination:

New Business

Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard E 7: Policyholder Service NAIC Market Regulation Handbook 2008 - Chapter 16, § E, Standard 7
Unearned premiums are correctly calculated and returned to the appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.
W. Va. Code §§33-11-4(8)(a) & (c)

Comments: Review methodology for this standard is sample. There is a direct statutory requirement. This standard is intended to assure that unearned premiums are calculated properly and returned in a timely manner.

Results: Pass

Observations: The Company employs the pro rata method to calculate unearned premium and remitted refunds to appropriate party in a timely manner. Review confirms that the correct amount of unearned premium was returned. Refunds of premium are made directly to the payee, insured or lien holder in mortgages or auto loans if they were the payee. Sixty (60) policies were randomly selected for review from the listing of all policies cancelled during the time frame of the examination:

New Business					
Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

F. UNDERWRITING AND RATING

Comments: The evaluation of standards in this business area are based on review of Company responses to information requests, questions, interviews, presentations made to the examiner, and file sampling. The underwriting and rating practices portion of the examination is designed to provide a view of how the Company treats the public and whether that treatment complies with applicable statutes, rules and regulations. It is typically determined by testing a random sampling of files and applying various tests to the sampled files. Testing is concerned with compliance issues.

Standard F 1: Underwriting & Rating	NAIC Market Regulation Handbook 2008 – Chapter 16, §F, Standard 1
The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company rating plan.	
W. Va. Code §§ 33-11-4(7) & 33-22-9	

Comments: Review methodology for this standard is sample. This standard is not a direct statutory requirement. It is file specific. It is necessary to determine if the Company complies with the rating systems filed and approved by the West Virginia Offices of the Insurance Commissioner. Wide scale application of incorrect rates by a company may raise financial solvency questions or be indicative of inadequate management oversight. Deviation from established rating plans may also indicate a company is engaged in unfair competitive practices.

Results: Pass

Observations: The examiners tested premium calculations and charges based on Company's published rates. No errors were noted. Underwriting rating guidelines were followed. Finalization of underwriting/rating is completed at the Company's Home office. Sixty (60) policies were randomly selected for review from the listing of all new business policies during the time frame of the examination:

New Business					
Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard F 2: Underwriting & Rating	NAIC Market Regulation Handbook – Chapter 16, §F, Standard 2.
All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.	
W. Va. Code §§ 33-11-4(7), 33-22-7 & 33-6-8	

Comments: Review methodology for this standard is sample. This standard does have a direct insurance statutory requirement. It is necessary to provide insureds with appropriate disclosures, both mandated and reasonable. Without appropriate disclosures, insureds find it difficult to make informed decisions.

Results: Pass

Observations: The Company provides its contact telephone number on its web site and forms and in correspondence to consumers. The Company notifies insureds and other parties of changes in coverage and basis in a timely manner. Changes normally occur at renewal date based on data received by the Company or change requested by the insured. Underwriting guidelines were reviewed and found to be acceptable. Producers are provided with underwriting/rating data and quotations by producers are timely with assistance provided by the Home Office when needed. Changes in rates and effective date of any changes are transmitted to producers timely. Any changes that apply to insureds are sent to the insured as part of the renewal notice approximately forty-five (45) days prior to renewal date. Sixty (60) policies were randomly selected for review from the listing of all new business policies during the time frame of the examination:

New Business					
Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard F 3: Underwriting & Rating	NAIC Market Regulation Handbook 2008 – Chapter 16, §F, Standard 3.
Company does not permit illegal rebating, commission-cutting or inducements.	
W. Va. Code §§ 33-11-4(8)(a) & 33-12-23	

Comments: Review methodology for this standard is generic. This standard has a direct insurance statutory requirement. It is generally file specific. Illegal rebating, commission cutting or other illegal inducements are a form of unfair discrimination.

Results: Pass

Observations: Commission schedules do not indicate any inappropriate variances. No concerns were found in review of the limited amount of advertising material the Company has generated.

Recommendations: None

Standard F 4: Underwriting & Rating NAIC Market Regulation Handbook 2008 – Chapter 16, §F, Standard 4
The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in the selection of risks.
W. Va. Code § 33-11-4(7)

Comments: Review methodology for this standard is sample. This standard has a direct insurance statutory requirement. It is necessary to provide insureds with appropriate protection from unfair discrimination. Inconsistent handling of rating or underwriting practices, including request for supplemental information, even if not intended, can result in unfair discrimination.

Results: Pass

Observations: Company underwriting guidelines (manuals) were reviewed to ensure they conformed to State law and were not unfairly discriminatory. The files were re-rated and the premium re-calculated to ensure the Company was following its underwriting guidelines. Review of New Business Sample of sixty (60) files confirmed the Company complies with their underwriting guidelines. Review of ImageRight Desktop found no evidence of anti-competitive behavior. Review of the files in the random sample did not disclose any inconsistent handling of rating or underwriting practices. Forms contained the required fraud statement. Sixty (60) policies were randomly selected for review from the listing of all new business policies during the time frame of the examination:

New Business					
Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard F 5: Underwriting & Rating NAIC Market Regulation Handbook 2008 – Chapter 16, § F, Standard 5.
All forms, including contracts, riders, endorsement forms and certificates are filed with the insurance department, if applicable.

Comments: The review methodology for this standard is sample and generic. The review is necessary to determine if the Company complies with the requirement that insurance policy forms, application forms, riders, endorsements or other forms to be attached to any policy delivered or issued for delivery in the State were filed with and approved by the Commissioner.

Results: Pass

Observations: Forms were filed and approved by the WVOIC. Forms constituting a part of the policy were listed on the declarations page. Application and supporting information was reviewed in the New Business sample and found to be acceptable and appropriate. Sixty (60) policies were randomly selected for review from the listing of all new business policies during the time frame of the examination:

New Business					
Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard F 6: Underwriting & Rating NAIC Market Regulation Handbook 2008 – Chapter 16, §F, Standard 6. Policies, riders and endorsements are issued or renewed accurately, timely and completely.

W. Va. Code § 33-11-4(7)

Comments: Review methodology for this standard is sample. This standard has a direct insurance statutory requirement. It is necessary to provide insureds with appropriate protection from unfair discrimination. Inconsistent handling of rating or underwriting practices, including request for supplemental information, even if not intended, can result in unfair discrimination.

Results: Pass

Observations: Review of policies in the New Business sample confirmed that the Company issued business in appropriate time frames. There were no unacceptable delays between the application and issuance of coverage. Review of the policies in the New Business Sample confirmed that correct procedures, forms, disclosures, etc., were used. Sixty (60) policies were randomly selected for review from the listing of all new business policies during the time frame of the examination:

New Business					
Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard F 7: Underwriting & Rating	NAIC Market Regulation Handbook 2008 – Chapter 16, §F, Standard 7.
Rejections and declinations are not unfairly discriminatory.	
	W. Va. Code § 33-11-4(7)(c)

Comments: Review methodology for this standard is sample. This standard does not have a direct insurance statutory requirement. Consistent application of the Company's underwriting rules is the primary method used to avoid unfair discrimination.

Results: Pass

Observations: Review of new business sample file confirmed that Company provided the producer and proposed insured with a valid reason for rejection/declination of initial coverage requests and whenever possible modified the application request with the consent of the producer and proposed insured to be acceptable in accordance with the Company underwriting guidelines. No reviewed files identified decisions based on previously adverse decisions. Decisions were based on data submitted and obtained at inception of coverage and the producer and proposed insured were notified of the reason, which was based on valid guidelines. Producers/agency does not have rejection/declination rights. Final underwriting decisions are made in the Home Office. File review did not disclose any unfair discriminatory practices. Appropriate refunds were made to applicants when coverage was rejected/declined. Sixty (60) policies were randomly selected for review from the listing of policies cancelled during the time frame of the examination:

Policies Cancelled

Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard F 8: Underwriting & Rating	NAIC Market Regulation Handbook 2008 – Chapter 16, §F, Standard 8.
Cancellation/non-renewal and Declination notices comply with policy provisions and state laws and company guidelines.	
	W. Va. Code §§ 33-22-15(c) & 33-11-4(7) (c)

Comments: Review methodology for this standard is electronic. This standard has a direct insurance statutory requirement. Policyholders need sufficient time in the event of a cancellation or non-renewal to replace coverage.

Results: Pass

Observations: Reasons for cancellation/nonrenewal/declination were valid and in accordance with underwriting guidelines, policy provisions and state law. Company initiated cancellations sample was reviewed and reasons and actions were found

acceptable. Producer/agency cancellations, declinations and non-renewals are not permitted. All final underwriting decisions are made in the Home Office. No unfair discriminatory practices were noted. Producer/agencies are notified of the specific reason for declination. Notices of cancellation/non-renewal are mailed to the insured, payee (mortgage holder, lien holder) and producer at the last known address of the appropriate party. Sixty (60) policies were randomly selected for review from the listing of all policies cancelled during the time frame of the examination:

Policies Cancelled

Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard F 9: Underwriting & Rating	NAIC Market Regulation Handbook 2008 – Chapter 16, §F, Standard 9.
Rescissions are not made for non-material misrepresentation.	W. Va. Code § 33-11-4(7)(a),(b) & (c)

Comments: Review methodology for this standard is sample. This standard does not have a direct statutory requirement. The standard is intended to determine if policies are rescinded based on post-claim underwriting practices.

Results: Pass

Observations: In our file review no policies were found to have been rescinded and file notes did not indicate any trend toward post-claim underwriting practices. Sixty (60) policies were randomly selected for review from the listing of all policies cancelled during the time frame of the examination:

Policies Cancelled

Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard F 14: Underwriting & Rating	NAIC Market Regulation Handbook 2008 – Chapter 17, §F, Standard 8.
Underwriting, rating and classifications are based on adequate information developed at or near inception of the coverage rather than near expirations, or following a claim.	W. Va. Code § 33-11-4(7), 33-6-8 & 33-22-7

Comments: Review methodology for this standard is sample. This standard is intended to determine if decisions are based on information that reasonably should have been

developed at the inception of the policy or during initial underwriting and not, through audit or other means, following a claim.

Results: Pass

Observations: Underwriting decisions are based on information obtained at the time of application and inception of the policy. No exceptions were noted. Sixty (60) policies were randomly selected for review from the listing of all new business policies during the time frame of the examination:

New Business					
Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard F 16: Underwriting & Rating	NAIC Market Regulation Handbook 2008 – Chapter 17, §F, Standard 10.
The Company's underwriting practices are not unfairly discriminatory. The Company adheres to applicable statutes, rules and regulations and the Company's guidelines in the selection of risks.	
W. Va. Code § 33-11-4(7), 33-6-8 & 33-22-7	

Comments: The review methodology for this standard is sample. This standard has a direct insurance statutory requirement. This standard is intended to ensure that no unfair discrimination is occurring, according to the state's definition of unfair discrimination. The Company must follow its underwriting guidelines, and the guidelines must conform to state laws and are not unfairly discriminatory. Inconsistent handling of rating or underwriting practices, even if not intentional, can result in unfair discrimination.

Results: Pass

Observations: The review of the sample of sixty (60) New Business applications produced no concerns. Underwriting was in accordance with underwriting guidelines and there were no indications of unfair discrimination. Review of ImageRight Desktop note pad and emails did not indicate any indication of anti-competitive behavior. There was not inconsistent handling indicating any unfair discrimination. Applications provided the required fraud warning statement. No exceptions were noted. Sixty (60) policies were randomly selected for review from the listing of all new business policies during the time frame of the examination:

New Business					
Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard F 17: Underwriting & Rating NAIC Market Regulation Handbook 2008 – Chapter 17, §F, Standard 11.
All forms and endorsements forming a part of the contract are listed on the declarations page and should be filed with the insurance department (if applicable).

W. Va. Code § 33-22-7

Comments: Review methodology for this standard is sample. This standard has a direct insurance statutory requirement. All forms and endorsements require filing and approval by the Commissioner. Forms and endorsements forming a part of the contract are to be listed on the declaration page. Applications are required to provide the required fraud warning statement.

Results: Pass

Observations: All forms and endorsements used have been filed and approved by the OIC. Review of the declaration page applicable to the New Business applications indicate that all forms and endorsements applicable to the contract are listed. No exceptions were noted. Sixty (60) policies were randomly selected for review from the listing of all new business policies during the time frame of the examination:

New Business					
Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard F 18: Underwriting & Rating NAIC Market Regulation Handbook 2008 – Chapter 17, §F, Standard 13.
The Company does not engage in collusive or anti-competitive underwriting practices.

W. Va. Code §§ 33-11-4(4) & 33-41-1 et seq.

Comments: Review methodology for this standard is generic. This standard does not have a direct insurance statutory requirement. This standard is intended to ensure that any practice suggesting anti-competitive behavior is not tolerated. This includes engaging in collusive underwriting practices that may inhibit competition, e.g., entering into an agreement with other companies to divide the market within West Virginia by territory.

Results: Pass

Observations: Review of the files selected, notes, emails and correspondence did not indicate any anti-competitive behavior or unlawful pricing. Rating was in accordance with published rates and underwriting guidelines. The Company is represented for some five hundred fifty (550) producers located throughout the State of West Virginia.

Recommendations: None

Standard F 19: Underwriting & Rating <i>NAIC Market Regulation Handbook 2008 – Chapter 17, §F, Standard 16.</i> Cancellation/nonrenewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract. <i>W. Va. Code §§ 33-11-4(7) & 33-22-7</i>
--

Comments: The review methodology for this standard is sample. This standard is intended to determine if the notice of cancellation/nonrenewal was valid according to policy provisions and state law and included the specific reasons for cancellation where required.

Results: Pass

Observations: Review of policies cancelled/nonrenewed confirmed that the actions were appropriate and in accordance with published underwriting rules and guidelines. Review of cancellation notices in ImageRight Desktop confirmed that the notice contained a specific reason for the action taken. Forms and guidelines were reviewed and found to be in compliance. Form filings made with the WVOIC were reviewed. The insured requested cancellations were reviewed, and were properly documented. Sixty (60) policies were randomly selected for review from the listing of all policies cancelled during the time frame of the examination. Cancellation notices provide a valid reason, stated the reason, and the reasons were accurate and substantiated by documentation in the underwriting file:

Insured Requested Policies Cancelled

Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Advance notice of cancellation was given to the insured and other parties to the contract as required by the state law and contract provisions:

Policies Cancelled

Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard F 20: Underwriting & Rating <i>NAIC Market Regulation Handbook 2008 – Chapter 17, §F, Standard 17</i> All policies are correctly coded.

Comments: Review methodology for this standard is sample. This standard does not have a direct insurance statutory requirement. Policy coding should conform to the coding reported by the producer. Insurers should correctly code all policies according to current codes. Audits should detect data errors, and changes.

Results: Pass

Observations: Review of underwriting files in ImageRight Desktop for new business confirmed that Home Office underwriting confirmed the coding by producers was correct. When the Company's manuals were updated new manuals were distributed to the producers. Review of the New Business sample verified that policies were coded correctly. Sixty (60) policies were randomly selected for review from the listing of all new business policies during the time frame of the examination:

New Business					
Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

Standard F 21: Underwriting & Rating NAIC Market Regulation Handbook 2008 – Chapter 17, §F, Standard 18. Application or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation adequately supports decisions made. W. Va. Code § §33-11-4(11) & 33-41-1 et seq.
--

Comments: Review methodology for this standard is sample. This standard is intended to determine if applications are complete and signed and contain the information necessary for the company to accurately underwrite the risk

Results: Pass

Observations: Applications for the policies reviewed in the New Business sample were complete and signed by the proposed insured. Applications were found to contain the necessary information to confirm the coverage requested and the exposure to the Company. The Company obtained sufficient underwriting information including ISO claims history to confirm exposure and applicable premium basis. Sixty (60) policies were randomly selected for review from the listing of all new business policies during the time frame of the examination:

New Business					
Type	Sampled	N/A	Pass	Fail	%Pass
HO & MHO Policies 1/1/05 to 12/31/08	60	0	60	0	100%

Recommendations: None

G. CLAIMS

The evaluation of standards in this business area is based on Company responses to information requested by the examiner, discussions with Company staff, electronic testing of claim databases, and claim file sampling during the examination process. This portion

of the examination is designed to provide a view of how the Company treats claimants and whether that treatment complies with applicable statutes and rules.

Standard G 1: Claims

NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 1.

The initial contact by the company with the claimant is within the required time frame.

W. Va. Code § 33-11-4(9) (b) & W. Va. Code St. R. § 114-14-6

Comments: Review methodology for this standard is generic and sample. This standard derives directly from W.Va. Code §33-11-4(9) (b) which prohibits, “failing to acknowledge and act reasonably upon communication with respect to claims arising under insurance policies.” West Virginia requires responses to claim communications within fifteen (15) working days of receipt of the communication.

Results: Pass

Observations: The Company’s manuals and web site were reviewed to determine if acceptable standards existed. The manual and web site review found no exceptions. Sixty (60) randomly selected files were reviewed in each of the following types of claims; First Party Paid, Third Party Paid, First Part Closed Without Payment (CWOP) and Third Party Closed Without Payment (CWOP). The following was noted in the review:

Claims					
Type	Sample	Pass	Fail	N/A	%Pass
Table F.1.2- 1st Party Paid Claims	60	60	0	0	100%
Table F.1.3- 3rd Party Paid Claims	60	59	1	0	98%
Table F.1.4- 1st Party CWOP Claims	60	59	1	0	98%
Table F.1.5- 3rd Party CWOP Claims	60	58	0	2	100%

Recommendations: None

Standard G 2: Claims

NAIC Regulation Handbook 2008 – Chapter 16, § G, Standard 2.

Timely investigations are conducted.

W. Va. Code § 33-11-4(9) (c) & W. Va. Code St. R. § 114-14-6

Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. West Virginia requires a claim investigation be initiated within fifteen (15) working days of receipt of a notice of a claim. The concern tested is that initial contact with the claimants meets the required contact standards.

Results: Pass

Observations: W. Va. Code St. R 114-14-6.1 requires that the investigation be initiated within fifteen (15) working days of receiving notice of the claim. The Company adjustor attempts to make initial contact within twenty-four (24) to forty-eight (48) hours of notification of loss. Initial contact is by telephone call. W. Va. Code St. R.114-14-6.7

requires notice of necessary delay in investigating claims. If the insurer needs more than thirty (30) calendar days from the date that a proof of loss from a first-party claimant or notice of claim from a third-party claimant is received to determine whether a claim should be accepted or denied, it shall so notify the claimant in writing within fifteen (15) working days after the thirty-day period expires. If the investigation remains incomplete, the insurer shall provide written notification of the delay to the claimant every forty-five (45) calendar days thereafter until the investigation is complete. All such notifications must set forth the reason(s) additional time is needed for investigation. Where there is a reasonable basis supported by specific information available for review by the Commissioner that a claimant has fraudulently caused or contributed to the loss, the insurer is relieved from the requirements of this subsection: Provided, that the insurer shall notify the claimant of the acceptance or denial of the claim within a reasonable time allowing for full investigation. Sixty (60) randomly selected files were reviewed in each of the following types of claims; First Party Paid, Third Party Paid, First Party Closed Without Payment; and Third Party Closed Without Payment. The following was noted in the review:

Claims					
Type	Sample	Pass	Fail	N/A	%Pass
Table F.1.2- 1st Party Paid Claims	60	60	0	0	100%
Table F.1.3- 3rd Party Paid Claims	60	60	0	0	100%
Table F.1.4- 1st Party CWOP Claims	60	58	1	1	98%
Table F.1.5- 3rd Party CWOP Claims	60	58	0	2	100%

Recommendations: None

Standard G 3: Claims	NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 3.
Claims are resolved in a timely manner	W. Va. Code §33-11-4(9)(l)&(m) & W. Va. Code St. R. § 114-14-6

Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. Failure to timely resolve claims can invite “bad faith” actions.

Results: Pass

Observations: The review of a random sample of sixty (60) claim files in each of the following four (4) categories; First Party Paid, Third Party Paid, First Party Closed Without Payment and Third Party Closed Without Payment indicates compliance with the Company’s standards, guidelines and state statutes:

Claims					
Type	Sample	Pass	Fail	N/A	%Pass
Table F.1.2- 1st Party Paid Claims	60	60	0	0	100%
Table F.1.3- 3rd Party Paid Claims	60	60	0	0	100%
Table F.1.4- 1st Party CWOP Claims	60	58	1	1	98%
Table F.1.5- 3rd Party CWOP Claims	60	56	0	4	100%

Recommendations: None

Standard G 4: Claims

NAIC Market Regulation Handbook 2008 – Chapter 16, §G, Standard 4.

The regulated entity responds to claim correspondence in a timely manner.

W. Va. Code § 33-11-4(9)(b) & W. Va. Code St. R. §114-14-5

Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. This standard derives directly from W. Va. Code §33-11-4(9)(b) which prohibits, “failing to acknowledge and act reasonably upon communication with respect to claims arising under insurance policies.” West Virginia requires responses to claim communications within fifteen (15) working days of receipt of the communication.

Results: Pass

Observations: The company contacts the claimant within twenty-four (24) to forty-eight (48) hours unless the volume of new claims is so great that this is not possible. Response was timely, notes in claim files were brief and the summary verified by documents in ImageRight Desktop. The review of a random sample of sixty (60) claim files in each of the following four (4) categories; First Party Paid, Third Party Paid, First Party Closed Without Payment and Third Party Closed Without Payment indicates compliance with the Company’s standards, guidelines and state statutes:

Claims					
Type	Sample	Pass	Fail	N/A	%Pass
Table F.1.2- 1st Party Paid Claims	60	59	1	0	98%
Table F.1.3- 3rd Party Paid Claims	60	56	4	0	93%
Table F.1.4- 1st Party CWOP Claims	60	58	1	1	98%
Table F.1.5- 3rd Party CWOP Claims	60	59	1	0	98%

Recommendations: None

Standard G 5: Claims

NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 5.

Claim files are adequately documented.

W. Va. Code St. R. § 114-14-3.1

Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. Without adequate documentation, the various time frames required by statute and/or regulation cannot be demonstrated. West Virginia requires that an insurer’s claim files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed.

Results: Pass

Observations: Claim file documentation is retained in the ImageRight Desktop. The Company complied with the file retention requirements of the West Virginia code and rules. The Company manuals and procedures provide for adequate investigation of claims. Files contained sufficient notes, estimates as well as photographs if it was necessary to visit the claim site to document and determine damages. The review of a random sample of sixty (60) claim files in each of the following four (4) categories; First Party Paid, Third Party Paid, First Party Closed Without Payment and Third Party Closed Without Payment indicates compliance with the Company's standards, guidelines and state statutes:

Claims					
Type	Sample	Pass	Fail	N/A	% Pass
Table F.1.2- 1st Party Paid Claims	60	60	0	0	100%
Table F.1.3- 3rd Party Paid Claims	60	56	4	0	93%
Table F.1.4- 1st Party CWOP Claims	60	58	1	1	98%
Table F.1.5- 3rd Party CWOP Claims	60	56	2	2	96%

Recommendations: None

Standard G 6: Claims	NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 6.
Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.	
W. Va. Code § 33-11-4(9) & W. Va. Code St. R. §§ 114-14-1, et seq.	

Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. Concerns tested with this standard include:

- That claim handling meets West Virginia statutes and rules as applied to sales tax payment, correct payees, improper release of claims and proper payment of non-disputed claims.
- That coverage was checked for proper application of deductible or appropriate exclusionary language.
- That appropriate disclosures are given when a claim nears the applicable statute of limitations.

Results: Pass

Observations: The Company maintains a Special Investigative Unit and suspected fraud claims are reported as required and investigated by the Company. Review of claim files on ImageRight Desktop confirmed that the Company applied the applicable deductible, if any, and quoted exclusionary language in correspondence to detail their position on questionable claims. The review of a random sample of sixty (60) claim files in each of the

following four (4) categories; First Party Paid, Third Party Paid, First Party Closed Without Payment and Third Party Closed Without Payment indicates compliance with the Company's standards, guidelines and state statutes:

Claims					
Type	Sample	Pass	Fail	N/A	% Pass
Table F.1.2- 1st Party Paid Claims	60	60	0	0	100%
Table F.1.3- 3rd Party Paid Claims	60	60	0	0	100%
Table F.1.4- 1st Party CWOP Claims	60	58	1	1	98%
Table F.1.5- 3rd Party CWOP Claims	60	58	0	2	100%

Recommendations: None

Standard G 7: Claims	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 7.</i>
Regulated entity claim forms are appropriate for the type of product.	
<i>W. Va. Code § 33-11-4(9) & W. Va. Code St. R. §§ 114-14-1, et seq.</i>	

Comments: Review methodology for this standard is generic and sample. This standard does not have a direct statutory requirement. Claim forms should have appropriate content and used appropriately. Claim forms should provide the required fraud warning statement.

Results: Pass

Observations: Review did not identify any inappropriate claim forms. The fraud warning statement was included on forms where required. The review of a random sample of sixty (60) claim files in each of the following four (4) categories; First Party Paid, Third Party Paid, First Party Closed Without Payment and Third Party Closed Without Payment indicates compliance with the Company's standards, guidelines and state statutes:

Claims					
Type	Sample	Pass	Fail	N/A	% Pass
Table F.1.2- 1st Party Paid Claims	60	60	0	0	100%
Table F.1.3- 3rd Party Paid Claims	60	60	0	0	100%
Table F.1.4- 1st Party CWOP Claims	60	58	1	1	98%
Table F.1.5- 3rd Party CWOP Claims	60	56	0	4	100%

Recommendations: None

Standard G 8: Claims	<i>NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 8.</i>
Claim files are reserved in accordance with the regulated entity's established procedures.	

Comments: Review methodology for this standard is sample and generic. This standard is intended to determine if individual reserves are evaluated and posted and adjustments made as warranted. Examples would be noted if reserves were found to be excessive/inadequate.

Results: Pass

Observations: The company manual outlines the basic reserving procedures. The company provided initial reserving guides. The company's standards and guidelines for reserving claims were found to be in compliance. Claim reserves are adjusted as necessary to more accurately reflect the amount of loss. The initial reserve is determined by the company's past loss data. When actual loss was compared to the calculated reserve, it was considered acceptable. The review of a random sample of sixty (60) claim files in each of the following four (4) categories; First Party Paid, Third Party Paid, First Party Closed Without Payment and Third Party Closed Without Payment indicates compliance with the Company's standards, guidelines and state statutes:

Claims					
Type	Sample	Pass	Fail	N/A	% Pass
Table F.1.2- 1st Party Paid Claims	60	60	0	0	100%
Table F.1.3- 3rd Party Paid Claims	60	60	0	0	100%
Table F.1.4- 1st Party CWOP Claims	60	58	1	1	98%
Table F.1.5- 3rd Party CWOP Claims	60	45	0	15	100%

Recommendations: None

Standard G 9: Claims	NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 9.
Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.	W. Va. Code § 33-11-4(9)(e) & (n) & W. Va. Code St. R. § 114-14-6.3, 6.4 & 6.7

Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. Concerns tested for this standard include:

- That denied and CWOP claims are based on policy provisions and comply with West Virginia statutes and regulations.
- That notices of claim denials reference specific policy provisions or exclusions.
- That claimants are provided with a reasonable basis for the denial when required by statute or regulation.

Results: Pass

Observations: These claims were reviewed for compliance with the company's standards and whether standards complied with state statutes. The company's standards and guidelines were found to be in compliance. The notices stated the reason(s) for denial. Reasons for denial were reasonable and were based on lack of coverage or liability. Denial

letters provided information for contacting both the company and the WVOIC. No claims involving suspected fraudulent activity were in the sample reviewed. Notice of denial stated the reason. The reason for denial was reasonable and based on lack of coverage or liability in all but one claim reviewed where claim was Closed Without Payment because the insured returned the Company's check with a letter stating his reason, that the amount was unacceptable. Denial letters provided information necessary to contact the Company and the OIC. The Company has an internal Special Investigative Unit, and reported suspicious claims involving fraudulent activities to the OIC's fraud unit. The review of a random sample of sixty (60) claim files in each of the following four (4) categories; First Party Paid, Third Party Paid, First Party Closed Without Payment and Third Party Closed Without Payment indicates compliance with the Company's standards, guidelines and state statutes:

Claims					
Type	Sample	Pass	Fail	N/A	% Pass
Table F.1.4- 1st Party CWOP Claims	60	58	1	1	98%
Table F.1.5- 3rd Party CWOP Claims	60	56	2	2	96%

Recommendations: None

Standard G-10: Claims

NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 10.

Canceled benefit checks and drafts reflect appropriate claim handling practices.

W. Va. Code § 33-11-4(9) & W. Va. Code St. R. §§ 114-14-1, et seq.

Comments: Review methodology for this standard is generic and sample. This standard has a direct statutory requirement.

Results: Pass

Observations: The review confirmed that the company promptly mailed or delivered checks. In a few cases, the check was FedEx'd or mailed next-day delivery when the claimant requested prompt delivery; otherwise, checks were delivered by first-class mail. The review of files in the company's Point system confirmed that checks include the correct payee and was for the correct amount. The review confirmed that the checks were not listed as "final" when it was not the case. The review confirmed that the endorsements were consistent with the payee listed on the check. Checks are issued from the company's checking account, held at a local bank. The review of the two (2) sample groups of sixty (60) paid claim files confirmed that the Company promptly mailed or delivered checks:

Claims					
Type	Sample	Pass	Fail	N/A	% Passed
Table F.1.2- 1st Party Paid Claims	60	60	0	0	100%
Table F.1.3- 3rd Party Paid Claims	60	60	0	0	100%

Recommendations: None

Standard G 11: Claims

NAIC Market Regulation Handbook 2008 – Chapter 16, § G, Standard 11.

Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.

W. Va. Code § 33-11-4(9)(g)

Comments: Review methodology for this standard is generic. This standard has a direct statutory requirement although compliance with this standard is usually judgmental rather than objective, especially as it pertains to third party claimants. The primary concern tested was that the Company processes and handles the claim that does not compel the claimant to institute a lawsuit to effect an appropriate settlement of the claim.

Results: Pass

Observations: A total of two hundred forty (240) claim files were reviewed involving paid and closed without payment claims. There were no instances that would indicate that claimants were compelled to instigate litigation, in cases of clear liability and coverage to recover amounts due under the policy.

Recommendations: None

Standard G 12: Claims

NAIC Market Regulation Handbook 2008 – Chapter 17, § G, Standard 1.

Regulated entity uses the reservation of rights and excess letters, when appropriate.

W. Va. Code § 33-11-4(9)(a) & W. Va. Code St. R. § 114-14-4

Comments: Review methodology for this standard is generic. This standard has a direct statutory requirement although compliance with this standard is usually judgmental rather than objective, especially as it pertains to third party claimants.

Results: Pass

Observations: The Company procedures manual provides guidelines for the use of the reservation of rights letter and notice of excess of loss. Reservation of rights letters are forwarded in instances where there is reason to question coverage. Reservation of rights letters are forwarded where it is suspected or apparent that the amount of loss will exceed policy limits. The review of a random sample of sixty (60) claim files in each of the following four (4) categories; First Party Paid, Third Party Paid, First Party Closed Without Payment and Third Party Closed Without Payment indicates compliance with the Company's standards, guidelines and state statutes:

Claims					
Type	Sample	Pass	Fail	N/A	% Pass
Table F.1.2- 1st Party Paid Claims	60	60	0	0	100%

Claims					
Type	Sample	Pass	Fail	N/A	% Pass
Table F.1.3- 3rd Party Paid Claims	60	60	0	0	100%
Table F.1.4- 1st Party CWOP Claims	60	59	1	0	98%
Table F.1.5- 3rd Party CWOP Claims	60	50	0	10	100%

Recommendations: None

Standard G 13: Claims	NAIC Market Regulation Handbook 2008 – Chapter 17, § G, Standard 2
Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.	
	W. Va. Code § 33-11-4(9)

Comments: Review methodology for this standard is sample. The standard has a direct statutory requirement.

Results: Pass

Observations: Files involving subrogation were reviewed and whenever the deductible was recovered, it was promptly remitted to the insured. The following indicates the results of the review of First and Third party paid claims:

Recommendations: None

Standard G 14: Claims	NAIC Market Regulation Handbook 2008 – Chapter 17, § G, Standard 3
Loss statistical coding is complete and accurate	

Comments: Review methodology for this standard is generic. The Company codes the correct loss data onto draft copies and their computer system.

Results: None

Observations: Coding manuals and programs are promptly updated and loss amounts are maintained separate from loss expense amounts. No exceptions were noted in the files reviewed. The review of a random sample of sixty (60) claim files in each of the following four (4) categories; First Party Paid, Third Party Paid, First Party Closed Without Payment and Third Party Closed Without Payment indicates compliance with the Company's standards, guidelines and state statutes:

Claims					
Type	Sample	Pass	Fail	N/A	% Pass
Table F.1.2- 1st Party Paid Claims	60	60	0	0	100%
Table F.1.3- 3rd Party Paid Claims	60	60	0	0	100%
Table F.1.4- 1st Party CWOP Claims	60	60	0	0	100%
Table F.1.5- 3rd Party CWOP Claims	60	58	0	2	100%

Recommendations: None

H. PRESUMPTIONS OF ABANDONMENT

Comments: The Company reports the following procedures for compliance with W.Va. Code § 36-9-2 requiring the reporting and remitting of abandoned property to the West Virginia Treasurer.

Unclaimed Property/Procedures

If a written check has not cleared the bank within approximately six (6) months of issuance, a letter is sent to the payee advising that our records show that the check has not been cashed, is stale dated, and requests for the payee contact our office regarding replacement. If the check remains outstanding for five (5) years, another letter is sent to the payee approximately sixty (60) days prior to the date required to report to the State's Unclaimed Property Division. If the check remains unclaimed another sixty (60) days, it is then reported to the State's Unclaimed Property Division.

The Company reports that the following amounts were remitted to the West Virginia Treasurer for the years indicated.

<u>YEAR</u>	<u>DATE SUBMITTED</u>	<u>AMOUNT REMITTED</u>
2003	09/03/03	\$1,011.00
2004	09/02/04	\$2,758.37
2005	10/19/05	\$2,586.34
2006	10/27/06	\$5,516.39
2007	10/24/07	\$1,769.23
2008	Filed Electronically Confirmation # UPWEB2078	\$3,054.89

Results: The Company has complied with the statutory provisions regarding abandonment of property.

Recommendations: None

I. TAX EXEMPTION – UNDERSERVED AREAS

Comments: W.Va. Code §33-22-8(e) provides that on and after the first day of January, two thousand seven, any company subject to the provisions of this article must have a majority of its book of business, as determined by either gross direct premiums or policy count, in underserved areas of the insurance market in the State of West Virginia. For purposes of this article, "underserved areas of the insurance market in the State of West Virginia" means any of the following or any combination thereof: Persons or property insured that have a public fire protection classification of five or higher, or the equivalent thereof, according to a rating organization licensed pursuant to section six, article twenty of

this chapter; residential structures or dwellings insured on an actual cash-value basis; residential structures or dwellings over forty years of age; vacant or seasonally occupied residential structures or dwellings; property or persons who have had insurance canceled or declined by any insurance company licensed to do business in this state; and farm property or structures.

The Company reports that eighty-seven point nine percent (87.9%) of their policies are in underserved areas as of June 30, 2008.

Policy Count as of 6/30/08	
	<i>Residential structures/dwellings:</i>
21,653	Insured property with a fire protection classification of 5+
1,095	Insured on ACV basis
1,602	Over 40 years of age
-	Vacant/seasonally occupied
-	Previously cancelled/declined
3,018	Farm Property
27,368	Total Underserved
31,130	Total Policies Inforce
87.9%	Percentage Underserved

Results: The Company has a majority of its book of business in underserved areas of the insurance market in the State and has complied with the statutory provisions of W.Va. Code §33-22-8(e).

Recommendations: None

SUMMARY OF RECOMMENDATIONS

Recommendation A-4-Operations/Management-Standard 4

It is recommended that the Company conduct a mock disaster exercise. This was a concern and recommendation noted in the previous examination. The Company should develop a formalized disaster recovery plan detailing procedures for continuing operations in the event of any type of disaster.

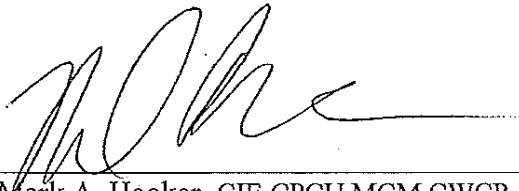
Recommendation B-2-Complaint Handling- Standard 2

The Company should issue a guideline to all company divisions informing them of the definition of a "complaint" and requiring each division to report any written communication received directly by them that meet the above definition for inclusion on the company's direct complaint log.

EXAMINER'S SIGNATURE AND ACKNOWLEDGMENT

The examiner would like to acknowledge the cooperation and assistance extended by the Company during the course of the examination.

In addition to the undersigned, Robert D. Flege, CIE, CFE, ARA, AIRC, FLMI, ALHC, CCP, LPCS, of Clayton Consulting LLC served as Examiner-in-Charge and was assisted by Charles L. Swanson, MCM and Joe Bradford Beam, MCM who also participated in the examination.



Mark A. Hooker, CIE, CPCU, MCM, CWCP, AAI, AU, AIS, LUTCF
Chief Market Conduct Examiner
Legal Services
State of West Virginia
Offices of the Insurance Commissioner

EXAMINER'S AFFIDAVIT

State of

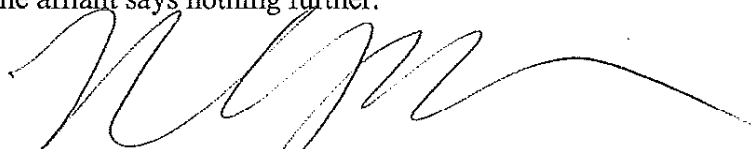
County of

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

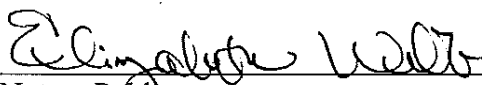
Mark A. Hooker, being duly sworn, states as follows:

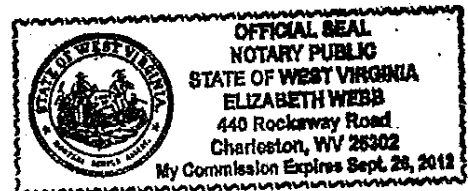
1. I have the authority to represent West Virginia in the examination of Farmers and Mechanics Mutual Insurance Company.
2. I have reviewed the examination work papers and examination report, and the examination of Farmers and Mechanics Mutual Insurance Company was performed in a manner consistent with the standards and procedures required by West Virginia.

The affiant says nothing further.


Mark A. Hooker, CIE, CPCU, MCM, CWCP, AAI, AU, AIS, LUTCF
Chief Market Conduct Examiner

Subscribed and sworn before me by Mark A. Hooker, on this 18th day of August, 2010.


Notary Public



My commission expires 9/26/2012 (date).



FARMERS & MECHANICS OF WEST VIRGINIA



August 31, 2010

Jane L. Cline
West Virginia Insurance Commission
P. O. Box 50540
Charleston, WV 25305-0540

Dear Ms. Cline:

In regard to the Report of Market Conduct Examination of Farmers & Mechanics Mutual Insurance Company of West Virginia, in accordance with the provisions of Chapter 33, Article 2, and Section 9 of the West Virginia Code of 1931 as amended, this Report reflects the business and operational affairs of Farmers & Mechanics Mutual Insurance Company of West Virginia for the period ending June 30, 2008 accurately.

Pursuant to West Virginia Code 33-2-9(j)(2), we take no exception to the report as filed.

Sincerely,

E. Dennis McCormick, CPCU
President/CEO

cc. Mark A. Hooker, Chief Market Conduct Examiner

SCANNED

